

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

* * * *

In the Matter of

| | | |
|--------------------------------------|---|---------------|
| THE APPLICATION OF NORTH CENTRAL |) | |
| TELEPHONE COOPERATIVE CORPORATION |) | |
| FOR AN ORDER ESTABLISHING, APPROVING |) | CASE NO. 7909 |
| AND ADJUSTING THE TARIFF AND RATES |) | |
| FOR THE CORPORATION |) | |

O R D E R

On July 11, 1980, North Central Telephone Cooperative Corporation (hereinafter Applicant or North Central) filed an application with this Commission requesting authority to increase its rates and charges by approximately \$224,252 annually, based on the total operations, an increase of 9.4%. The proposed increase in rates would generate approximately \$157,806 in additional local service revenues based on the total subscribers at the end of the test period; and approximately \$66,446 in additional revenue from miscellaneous service charges based on test year operations. The proposed rate increase would result in additional revenue to North Central from Kentucky intrastate service of approximately \$82,000.

On July 22, 1980, the Consumer Intervention Division in the Department of Law filed a motion to intervene in these proceedings. A hearing was scheduled for September 23, 1980 at the Commissions offices in Frankfort, Kentucky. All parties were notified and the hearing was conducted as scheduled. At the conclusion of the hearing and following response to all requests for additional information the matter was submitted to the Commission for final determination.

COMMENTARY

North Central Telephone Cooperative Corporation is a Tennessee Corporation established by and under the laws of the State of Tennessee and domesticated in the Commonwealth of Kentucky. Applicant provides telephone service to approximately 11,000 subscribers in its entire service area of which approximately 2,850 are located in Allen County, Kentucky.

TEST YEAR

North Central proposed, and the Commission has accepted the twelve month period ending April 30, 1980 as the test period herein. In utilizing the historic test period the Commission has given due consideration to known and measurable adjustments, where found reasonable. Applicant stated that the test period reflected normal operating conditions for a twelve month period with no extraordinary revenues or expenses.

VALUATION

Applicant proposed a total investment of \$13,972,923 which consisted of Total Company Telephone Plant in Service, Materials and Supplies and Working Capital. In determining the Net Investment North Central did not take into consideration the Depreciation Reserve which substantially reduces the Net Investment rate base and included an allowance for working capital. The Commission is of the opinion that the allowance for working capital should not be included in calculating the Net Investment rate base inasmuch as the subscribers of Applicant provide the required working capital through the advance payment of local service rates. The Commission is further of the opinion that Total Utility Plant should be reduced by the Depreciation Reserve in determining the Net Investment rate base. The Commission will include the depreciation adjustment based on test year end Plant in Service in determining the level of Depreciation Reserve to be deducted. This adjustment is made in order to more properly reflect the changing conditions under which a utility operates.

After consideration of these adjustments Applicant's Net Investment rate base would appear as follows:

| | |
|------------------------------------|----------------------|
| Telephone Plant in Service | \$ 13,721,792 |
| Telephone Plant Under Construction | 612,913 |
| Total Telephone Plant | \$ 14,334,705 |
| Materials and Supplies | 84,394 |
| Less: Depreciation Reserve | 2,337,672 |
| Net Investment | \$ <u>12,081,427</u> |

North Central did not propose a capital structure in this matter. However, the Commission has determined from the record herein that Applicants capital structure at the end of the test year was \$12,727,284 and consisted of \$11,524,301 in Long Term Debt and \$1,202,983 in Equity.

The Commission has given consideration to these and other elements of value in determining the reasonableness of the proposed rates and charges.

The Net Investment rate base and the Capital Structure established herein are based on the total operations of Applicant without regard to the portion of the operations within the confines of the Commonwealth of Kentucky and the jurisdiction of the Kentucky Utility Regulatory Commission. In making this determination the Commission is cognizant of its jurisdictional limitations with regard to establishment of the fair value of property devoted to public service and reasonable rates for service. The record in this matter reflects that at the present time applicants books are not maintained on a jurisdictional basis. The methods proposed by Applicant to allocate the Net Investment, and revenues and expenses are not justified by the record established herein. North Central testified that the rates for service have been and will continue to be the same for subscribers in Kentucky and Tennessee. The Commission is therefore of the opinion that in this matter it is in the best interests of the subscribers of Applicant to determine the elements of value and the total revenue requirements on a total company basis. The Commission may, however, require applicant in future rate making proceedings to provide a detailed jurisdictional allocation of the cost of providing service to the Kentucky portion of its operations with sufficient supporting documentation and justification.

REVENUE AND EXPENSES

North Central proposed pro-forma adjustments to revenues and expenses to reflect the addition of 271 main stations. The test year actual expenses were increased by the average cost per main station at the end of the test year for the additional subscribers, and miscellaneous operating revenues were projected on the same basis. The local service revenue was adjusted to reflect the additional subscribers at the proposed one party rate. The Commission is of the opinion that these adjustments are based on speculative projections which are not supported in the record rather than known increases and decreases in revenues and expenses; therefore, they will not be included herein for rate making purposes.

Applicant also proposed pro-forma adjustments to reflect increased interest costs on long term debt unadvanced, and depreciation expense on construction not completed. The Commission is of the opinion that the adjustment to interest on long term debt should be limited to the amount of debt outstanding at the end of the test period and the additional long term debt drawn down through July 31, 1980. The Commission is further of the opinion that the depreciation adjustment should be limited to the additional expense associated with the plant in service at the end of the test year.

In addition to the pro forma adjustments proposed by Applicant the Commission has adjusted Operating Revenue by \$75,899 to reflect the normalization of revenue based on the test year end subscribers, \$3,837 to include the loss of revenue due to the policy of Applicant of providing free local service to its employees, and \$19,180 to include the interest during construction in Operating Revenue for rate making purposes. The Commission is of the opinion that concession rates can no longer be justified in view of the ever increasing costs all other customers must pay in order to return the lost revenue to the Applicant.

The Commission has also made an adjustment to the test year operating expenses to exclude the cost of the National Telephone Cooperative Dues of \$6,061 erroneously included in test year operating

expenses for a prior period; and by \$1,926 to exclude the cost of institutional advertising included in the test year pursuant to the Commission's regulations regarding advertising expenditures for ratemaking purposes.

After consideration of the aforesaid pro forma adjustments Applicants statement of operations would appear as follows:

| | <u>Actual 4-30-80</u> | <u>Pro-forma Adjustments</u> | <u>Adjusted Test Year</u> |
|----------------------------------|---------------------------|----------------------------------|-------------------------------|
| Operating Revenues | \$2,307,091 | \$ 98,916 | \$2,406,007 |
| Operating Expenses | <u>2,000,848</u> | <u>80,239</u> | <u>2,081,087</u> |
| Net Operating Income | \$ 306,243 | \$ 18,677 | \$ 324,920 |
| Other Income | 24,589 | - | 24,589 |
| Interest on Long Term Debt (Net) | 299,345 | 95,687 | 395,032 |
| Other Interest Expense | 4,497 | - | 4,497 |
| Net Income | <u>\$ 26,990</u> | <u>\$(77,010)</u> | <u>\$ (50,020)</u> |

REVENUE REQUIREMENTS

The actual rate of return on Applicant's Net Investment rate base established herein for the test year was 2.53%. After taking into consideration the pro forma adjustments, Applicant's rate of return would be 2.69%. The Commission is of the opinion that the adjusted rate of return is unreasonable and a more reasonable rate of return would be 4.55% which will be sufficient to allow North Central to pay its operating expenses, service its debt, and provide a surplus for equity growth. In order to achieve this rate of return North Central should be allowed to increase its annual revenue by approximately \$224,252 which is the total amount of revenue requested herein.

SUMMARY

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds that the rates proposed by Applicant and as set out in Appendix "A" attached hereto, are the fair, just, and reasonable rates for North Central Telephone Cooperative Corporation.

IT IS THEREFORE ORDERED that the rates proposed by North Central Telephone Cooperative Corporation are hereby approved as the fair, just, and reasonable rates to be charged for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the Applicant shall file with this Commission within twenty (20) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 31st day of December, 1980.

UTILITY REGULATORY COMMISSION

Did not participate.
Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7909 Dated DECEMBER 31, 1980.

The following rates and charges are prescribed for the customers in the area served by North Central Telephone Cooperative, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Monthly Exchange Rate

Business

Monthly Rates

| | |
|------------------------------------|----------|
| 1 - Party Scottsville, Ky. - Rural | \$ 13.50 |
| 4 - Party Scottsville, Ky. - Rural | 10.50 |
| *1 - Party Scottsville, Ky. | 16.25 |

Residence

| | |
|------------------------------------|---------|
| 1 - Party Scottsville, Ky. - Rural | \$ 9.50 |
| 2 - Party Scottsville, Ky. - Rural | 8.50 |
| 4 - Party Scottsville, Ky. - Rural | 8.00 |
| *1 - Party Scottsville, Ky. | 11.00 |

*These rates will apply upon conversion to one-party only.

| | |
|-----------------------------|----------|
| Pay Stations | \$ 18.25 |
| PBX and PABX Trunks | 16.25 |
| Key System Lines Type A & B | 16.25 |
| Key System Lines Type C | 23.25 |
| Radio Telephones | 52.25 |

Service Charges

Business

Residence

| | | |
|----------------------------|----------|----------|
| Service Connection Charge | \$ 25.00 | \$ 25.00 |
| Inside Move Charge | 25.00 | 25.00 |
| Change Charge | 25.00 | 25.00 |
| Restoration Charge | 25.00 | 25.00 |
| Maintenance Service Charge | 50.00 | 50.00 |

Monthly Rate

Directory Listings

Business

Residence

| | | |
|----------------------------|--------|--------|
| Additional Listings Charge | \$.75 | \$.75 |
| Alternate Listings | .75 | .75 |
| Temporary Listings | .75 | .75 |

Miscellaneous Service Arrangements

Installation Charge

Monthly Rate

| | | |
|-------------------------------|----------|----------|
| Automatic Answering Equipment | \$ 30.00 | \$ 12.00 |
|-------------------------------|----------|----------|

| | <u>Installation Charge</u> | <u>Monthly Rate</u> |
|---------------------------------|--------------------------------|-------------------------|
| Trendline Telephone Set | \$ 25.00 | \$.75 |
| Jack-Non-Weatherproof | 25.00 | |
| Each additional same location | 7.50 | |
| Jack Weatherproof | 25.00 | |
| Each additional | 15.00 | |
| Custom Telephone Units | | |
| No Modification Required | 25.00 | |
| Modification Required | 50.00 | |
| Cords-Long Cords | | |
| Connection to Block 14' Cords | 25.00 | |
| Hand-Set Cords 15' Cords | 25.00 | |
| Signal Equipment | | |
| Extension Bells | | \$ 1.00 |
| Extension Gongs | | 2.00 |
| Chime toned Bell | | 2.00 |
| Horn, single potential | | 5.00 |
| <u>Mobile Telephone Service</u> | | |
| Directory Listing | | \$.75 per month |
| Restoration Charge | | 25.00 |
| Removal Charge | | 25.00 |